

The Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
House of Commons
London SW1A 0AA

The Rt Hon Emma Reynolds MP
Economic Secretary to the Treasury and City Minister
House of Commons
London SW1A 0AA

James Murray MP
Exchequer Secretary to the Treasury
House of Commons
London SW1A 0AA

5th February 2025

Dear Chancellor Reeves, Economic Secretary Reynolds, and Exchequer Secretary Murray,

Tax inequality of DeFi lending and staking transactions

We are writing to express our concern about the disparity in tax treatment between Bitcoin and other cryptoassets compared with traditional asset classes. This impacts the UK's financial services industry and our ability to foster growth and innovation in the broader cryptoasset sector. As Bitcoin and other cryptoassets continue to expand in global economic relevance, the UK's financial services sector needs to seize the opportunity to capitalise on this £1 trillion-plus market, particularly by providing collateralised loans and other financial services that facilitate asset management.

The current tax treatment of lending Bitcoin and other cryptoassets does not align with the economic substance of these transactions. By contrast with stocks, shares and other securities, Bitcoin and other cryptoassets fall outside the scope of repurchase or "repo" legislation that enables the lending of securities to be tax neutral.

The repo legislation was introduced to ensure that the tax rules reflect the economic reality of these transactions¹, and it has been further amended over subsequent years. The focus of the legislation and changes has been to simplify securities lending and facilitate liquidity in traditional finance markets.

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<https://hansard.parliament.uk/Commons/1995-04-03/debates/522e44ec-0b64-4767-9933-651323b49d87/InterestOnGilt-EdgedSecuritiesPayableWithoutDeductionOfTax>

By contrast, the lending of Bitcoin or other cryptoassets is not in scope of the repo or stock lending legislation and is, therefore, a taxable event. This does not accurately reflect the economic reality, a point that HMRC and HMT acknowledge, as highlighted in their consultation on the taxation of decentralised finance (DeFi) involving lending and staking ([The taxation of decentralised finance \(DeFi\) involving the lending and staking of cryptoassets - GOV.UK](#)). The consultation has led to positive developments, including industry participants recommending a “composite no gain, no loss framework” as a practical approach to making DeFi lending and staking transactions tax neutral.

The current tax treatment of lending or staking cryptoassets does not adequately reflect their growing role in our financial system, placing Bitcoin and other digital assets at a comparative disadvantage to traditional securities. This disparity limits the UK’s potential to become a global leader in innovative financial products tailored to the crypto sector. As the previous Economic Secretary Tulip Siddiq, noted, cryptocurrencies are here to stay, and traditional finance and cryptoassets are not wholly separate but are interconnected. The UK’s financial services industry, world renowned for driving financial innovation, is ideally positioned to expand its offerings to include a full spectrum of services for cryptoassets. However, without aligning the tax framework to recognise this integration, we risk leaving the industry’s capacity to foster growth in Bitcoin and broader cryptoasset markets untapped.

We understand that HMRC is working on draft legislation to allow the lending of Bitcoin and other cryptoassets to be treated as “no gain, no loss” transactions for tax purposes. Such a change would align the tax treatment of cryptoassets with the economic reality of these transactions and with the treatment of traditional securities lending.

Nearly three years since it was announced that DeFi would be reviewed, we are still awaiting clarity. We now urge you to prioritise the swift introduction of this legislation. Although there have been several regulatory developments, tax policy, however, a foundational aspect of financial regulation, appears to have been overlooked in the broader development of regulatory frameworks for cryptoassets. All we are asking for is for cryptoassets in the context of DeFi lending and staking to be treated on par with traditional securities.

There was considerable momentum behind this initiative following the HMRC consultation, but despite the glaring inequality in tax treatment, it appears that the matter has not been treated as a ministerial priority.

We strongly support this initiative, as it would provide much-needed clarity, reduce administrative burdens, and enable the UK’s financial services sector to flourish in this rapidly expanding market. Ensuring a level playing field for Bitcoin and other cryptoassets is crucial for fostering innovation and positioning the UK as a global leader in financial services, specifically in cryptoasset management. By addressing this tax issue comprehensively alongside other regulatory developments, the UK has a unique opportunity to lead and grow cryptoasset financial services that are exportable worldwide.

Thank you for your attention to this critical matter. We look forward to your response and remain at your disposal if you require further insight or support.

Yours sincerely,

Daniel Howitt - CEO and Co-founder - Recap

Dion Seymour - Crypto and Digital Asset Technical Director - Andersen in the UK

Freddie New - Co-Founder and Chief Policy Officer - Bitcoin Policy UK

Suzanne Morsfield - Head of Policy - CryptoUK

Simon Jennings - Managing Director - UK Cryptoasset Business Council

Partner Signatories:

Lawrence Zlatkin - VP Tax - Coinbase

Perry Scott - Policy Manager (UK & APAC) - Kraken

Simon McLoughlin - CEO - Uphold

Sean Keirnan - CEO - Greengage

Jeff Hancock - Co-Founder & CEO - OANDA Coinpass

Dr Max Bernt - Global Head of Regulatory Affairs - Taxbit

Andy Wood - Tax Barrister - E Chambers

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Laura Knight - Director - Knightsbridge Tax

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